

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature	Printed Name		License Number	

COVERT HOUSING COMMISSION

Financial Statements

June 30, 2006

Audited by

JOHN C. DIPIERO, P.C.

Certified Public Accountant

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John C. DiPiero, P.C.

Certified Public Accountant

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Board of Commissioners
Covert Commission
6905 N. Covert Road
Covert, Michigan 48725

Independent Auditor's Report

I have audited the Business Type Activities of the Covert Housing Commission as of and for the year ended June 30, 2006. These financial statements are the responsibility of the Housing Commission's management. My responsibility is to express an opinion on the financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Covert Housing Commission as of June 30, 2006, and the results of its operations and the cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Required Supplemental Information

The Management's Discussion and Analysis and the required supplemental information are not a required part of the basic financial statements but is supplemental information required by the Governmental Auditing Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, I did not audit the information and express no opinion on it.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Combining Financial Statements

My audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Financial Data Schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the financial statements taken as whole.

Certified Public Accountant

February 28, 2007

This discussion and analysis of the Covert Housing Commission's financial performance should be read in conjunction with the auditor's opinion letter and the financial statements.

Entity-Wide Statements

The combined financial statements show, in one place, all the Commission's operations. Our statements are prepared on the accrual basis of accounting, which is similar to that used by most businesses. Under this method, all revenues and expenses connected with the fiscal year are taken into account even if the cash involved has not actually been received or paid. The Financial Data Schedule included within the audit report contains all the programs of the Commission.

Fund Statements

The Financial Data Schedule reports the Commission's operations in more detail. The Commission reports all its activities using Proprietary Fund types. These funds are used to show activities that operate more like commercial enterprises. The Financial Data Schedule is organized by the government Catalogue of Financial Domestic Assistance (CFDA) numbers.

Entity-Wide Financial Highlights

The Commission was awarded the following Federal Assistance:

	<u>Year 2006</u>	<u>Year 2005</u>	<u>Difference</u>
-			
Operating Subsidies	\$ 66,619	\$ 67,772	\$ (1,153)
Capital Projects Funds	65,841	20,548	45,293

The Commission's cash position increased during the year; our fixed assets after depreciation decreased, our total liabilities decreased, and Net Assets decreased. The following represents the aforementioned positions:

	<u>Year 2006</u>	<u>Year 2005</u>	<u>Difference</u>
Cash	\$ 178,755	\$ 181,773	(3,018)
Accounts Receivable/Other Assets	22,011	13,631	8,380
Fixed Assets, net of Depreciation	2,018,390	1,960,485	57,905
Total Liabilities	34,425	30,008	4,417
Net Assets	536,725	532,548	4,177

Significant changes in the above are as follows:

Our cash position decreased slightly; we used our profit before depreciation to increase our fixed assets by \$ 45,293. Our accounts receivable and other assets increased- we have approximately \$ 8,000 more in prepaid insurance over the prior year due to a change in carriers late in the fiscal year. Total liabilities increased as a result of correcting the prior years PILOT expense- see prior period adjustment described later. Our net assets increased by \$ 4,177; we had a net loss of \$ 662 and the aforementioned correction of PILOT from the prior year of \$ 4,839 (\$ 4,839-662=\$ 4,177).

	<u>Year 2006</u>	<u>Year 2005</u>	<u>Difference</u>
Revenues:			
Tenant Revenues	90,879	89,816	1,063
HUD Grants	132,460	88,320	44,140
Other Revenue	37,560	3,040	34,520
Expenses:			
Administrative	53,043	50,478	2,565
Utilities	33,243	34,215	(972)
Maintenance & Operations	49,201	49,155	46
General Expenses	20,655	15,093	5,562
Casualty Losses	38,009		38,009
Depreciation Expenses	64,663	59,260	5,403

Significant changes in the above are as follows:

HUD grants are a result of requisitioning eligible funds. HUD grants received are a result of calculations under the Performance Funding System, and Capital grants authorized and obligated during the year. We replaced the boilers in the senior low rise during the year; we plan on using our Capital Fund Program (CFP) to replace windows and hot water heaters, see capital asset discussion.

Other revenue increased \$ 34,520 primarily due to insurance proceeds of approximately \$ 32,500; we suffered a fire in one of our scattered site units- casualty losses also increased by \$ 38,009 which represents the cost to repair the same unit. The difference represents the cost of the deductible which the Commission had to pay.

General expenses increased by the amount of our PILOT expenses of \$ 5,480. In the prior year, the PILOT expense was reported as a transfer to other governments which resulted in a prior period adjustment to fund balance. We believe that method of reporting was correct according to instructions from the Real Estate Assessment Center, however, believe the current method of reporting PILOT as a general expense is more consistent with Generally Accepted Accounting Principles (GAAP).

Depreciation expense increased from depreciating the capital assets which were added during the current year.

The Commission provided the following housing for low to moderately low income families:

	<u>2006</u>	<u>2005</u>
Low Rent Public Housing	40	40

General Fund Budgetary Highlights

The Commission approved an operating budget on April 18, 2005 for the fiscal year ending June 30, 2006; we amended the budget on June 26, 2006. The revision consisted primarily of the following adjustments:

	<u>Original</u>	<u>Revised</u>	<u>Difference</u>
Other Revenue	\$ 2,625	\$ 37,640	\$ 35,015
Casualty Losses	6,090	46,320	40,230
Net Income (Loss) before depreciation	5,581	5,899	318

The significant changes between the original and revised budget are as follows:

The insurance proceeds and cost to refurbish the fire unit were added to the amended budget.

Entity Wide Capital Assets

Our capital assets before depreciation increased \$ 57,905; this was the from the completion of the boiler replacement in the senior low rise. We plan on beginning our window replacement project and hot water heater replacement in the coming year which will be completed with the use of our CFP money.

Commission's Position

The Commission is concerned with the increase in Federal unfunded mandates such as project based accounting, asset management, and uncertainty in future funding with the new subsidy calculations and cuts in other federal programs; the Commission will continue to work with HUD to provide safe, sanitary and decent housing for the low and moderately low income families. We intend to use the 2006 CFP to complete window replacement through-out the complex.

Questions or comments to the above may be addressed to:

Ramona Tugan, Executive Director, Covert Housing Commission
73860 E. Lake Street
Covert, Michigan 49043

COVERT HOUSING COMMISSION
Statement of Net Assets
June 30, 2006

ASSETS

C-8084

CURRENT ASSETS

Cash	\$	178,755	
Accounts Receivable (Net of Allowance for Doubtful Accounts of \$ 3,767)		1,597	
Accounts Receivable-HUD		9,996	
Prepaid Expenses		<u>10,418</u>	
Total Current Assets	\$		200,766

NON CURRENT ASSETS

Land	\$	21,676	
Buildings		1,565,413	
Furniture, Equipment- Dwellings		36,376	
Furniture, Equipment- Administrative		54,934	
Leasehold Improvements		339,991	
Accumulated Depreciation		<u>(1,658,002)</u>	
Total Non Current Assets			<u>360,388</u>

TOTAL ASSETS \$ 561,154

COVERT HOUSING COMMISSION
Statements of Net Assets
June 30, 2006

LIABILITIES

C-8084

CURRENT LIABILITIES

Accounts Payable	\$	6,845	
Accrued Wages & Payroll Taxes		2,160	
Accrued Compensated Absences		861	
Accounts Payable-Other Governments		5,480	
Deferred Revenue		669	
Tenants Security Deposit		<u>7,647</u>	
<u>Total Current Liabilities</u>	\$		23,662

NONCURRENT LIABILITIES

Accrued compensated Absences		<u>767</u>	
<u>Total Liabilities</u>	\$		24,429

NET ASSETS

Investment in Fixed Assets, net of related Debt	\$	360,388	
Unrestricted Net Assets		<u>176,337</u>	
<u>Total Net Assets</u>	\$		<u>536,725</u>
<u>Total Liabilities and Net Assets</u>	\$		<u>561,154</u>

The Accompanying Notes are an Integral part of the Financial Statements

COVERT HOUSING COMMISSION
Statement of Revenue, Expenses, and Changes in Net Assets
For the year ended June 30, 2006

OPERATING REVENUE

Tenant Rental Revenue	\$	90,112	
Tenant Revenue-Other		767	
HUD Grants		84,429	
Interest Income		2,471	
Other Income		<u>35,089</u>	
<u>Total Operating Revenue</u>	\$		212,868

OPERATING EXPENSES

Administrative	\$	53,565	
Tenant Services		2,219	
Utility Expenses		33,243	
Ordinary Maintenance		49,201	
General Expenses		<u>20,655</u>	
<u>Total Operating Expenses</u>			<u>158,883</u>
<u>Operating Income (Loss)</u>	\$		53,985

NONOPERATING REVENUE (EXPENSES)

Extra Ordinary Maintenance	\$	(3,920)	
Casualty Losses-non capitalized		(34,089)	
Depreciation Expenses		<u>(64,669)</u>	
<u>Income (Loss) before Contributions</u>	\$		(48,693)

CAPITAL CONTRIBUTIONS

			<u>48,031</u>
<u>Changes in Net Assets</u>	\$		(662)
Total Net Assets- Beginning	\$	532,548	
Prior Period Adjustment-			
Adjust prior years PILOT		<u>4,839</u>	<u>537,387</u>
 Total Net Assets- Ending	\$		<u>536,725</u>

The Accompanying Notes are an Integral part of the Financial Statements

COVERT HOUSING COMMISSION
Statement of Cash Flows
For the Year Ended June 30, 2006

Business Type Activities

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from Customers	\$ 87,832
Payments to Suppliers	(163,961)
Payments to Employees	(39,004)
HUD Grants	132,460
Other Receipts (Payments)	<u>37,560</u>
Net Cash Provided (Used) by Operating Activities	\$ 54,887

CASH FLOWS FROM CAPITAL AND
RELATED FINANCING ACTIVITIES

Purchases of Capital Assets	\$ <u>(57,905)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (3,018)
Balance- Beginning of Year	<u>181,773</u>
Balance- End of Year	\$ <u>178,755</u>

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET
CASH PROVIDED (USED) BY OPERATING ACTIVITIES

Net Profit or (Loss)	\$ (662)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation	64,669
Changes in Assets (Increase) Decrease:	
Receivables (Gross)	(3,864)
Prepaid Expenses	(4,516)
Changes in Liabilities Increase (Decrease):	
Accounts Payable	(11,640)
Accrued Expenses	4,723
Accounts Payable- Other Governments	5,480
Security Deposits	43
Deferred Revenue	<u>654</u>
Net Cash Provided by Operating Activities	\$ <u>54,887</u>

The Accompanying Notes are an Integral part of the Financial Statements

COVERT HOUSING COMMISSION
Notes to Financial Statements
June 30, 2006

NOTE 1: Summary of Significant Accounting Policies

Reporting Entity-

Covert Housing Commission, Covert, Michigan, (Commission) was created by ordinance of the city of Covert. The Commission signed and Annual Contributions Contract (ACC) with the U.S. Department of Housing and Urban Development (HUD). The ACC requires the Commission to provide safe, sanitary and decent housing for qualifying senior and low income families.

The Commission consists of the following:

MI 189	Low rent program	40 units
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In determining the reporting entity, the manifestations of oversight, as defined by the Governmental Accounting Standards Board (GASB), Cod. sec 2100, were considered. The criteria include the following:

The nucleus of the financial reporting entity as defined by the Governmental Accounting Standards Board (GASB) Statement No. 14 is the "primary government". A fundamental characteristic of a primary government is that it is a fiscally independent entity. In evaluating how to define the financial reporting entity, management has considered all potential component units. A component unit is legally separate entity for which the primary government is financially accountable. The criterion of financial accountability are the ability of the primary government to impose its will upon the potential component unit. Based on the above criteria, no component units exist.

These criteria were considered in determining the reporting entity.

Basis of Presentation-

The accounts of the Commission are organized by the Catalog of Federal Domestic Awards (CFDA) numbers, in the Financial Data Schedule; each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenditures, or expenses, as appropriate. Commission resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Notes to Financial Statements- continued

Proprietary Funds

Enterprise Funds- Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises- where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, management control, accountability, or other purposes.

Basis of Accounting-

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Proprietary Funds are accounted for using the accrual basis of accounting. The revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Prior to October 1, 1998, the Commission followed a basis of accounting consistent with the cognizant agency, the U. S. Department of Housing and Urban Development, HUD. Those practices differed from Generally Accepted Accounting Principals (GAAP); however, for all fiscal years beginning on or after October 1, 1998, HUD has required adherence to GAAP. Therefore, the current and future financial presentations will follow GAAP and the Financial Accounting Standards Board (FASB) pronouncements issued subsequent to November 30, 1989, unless they conflict with Governmental Accounting Standards Board (GASB) pronouncements.

Budgetary data-

Formal budgetary integration is employed as a management control device during the year in proprietary type funds. Budgets for funds are adopted on a basis consistent with generally accepted accounting principles (GAAP) for that fund type. The Commission adopts a budget annually, and amends the budgets as it feels necessary in order to maintain financial integrity.

Assets, Liabilities, and Net Assets-

Deposits & Investments

Deposits are stated at cost; the carrying amount of deposits is separately displayed on the balance sheet as cash and cash equivalents; investments are stated at cost which approximates market.

Notes to Financial Statements- continued

Cash Equivalents

Cash Equivalents represent investments purchased with a three month maturity or less; investments meeting this criteria are reclassified for financial statement purposes as cash.

Fixed Assets

The accounting and reporting treatment applied to the fixed assets are determined by its measurement focus. All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is reported as Invested in Capital Assets, Net of Related Debt.

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations; depreciation has been provided over the estimated useful lives using the straight line method. The estimated useful lives are as follows:

Buildings and Improvements	40 years
Equipment	3-10 years

Compensated Absences

Sick leave and other compensated absences with similar characteristics have been accrued as a liability. The amount accrued was based on the probability that the Commission will compensate the employees for the benefits through cash payments as a condition of the employees' termination or retirement.

Note 2: Cash and Cash Equivalents

The composition of cash and cash equivalents are as follows:

Cash:

General Fund Checking Account	\$ 99,427
Petty Cash	100
Savings Account	<u>79,228</u>
Financial Statement Total	<u>\$ 178,755</u>

Generally the Commission classifies cash and investments with the following risk assumptions:

- 1) Insured or registered in the Commission's name.
- 2) Uninsured or unregistered, held by a broker in the Commission's name.
- 3) Uninsured or unregistered, held by a broker not in the Commission's name.

Notes to the Financial Statements- continued

	<u>Categories</u>			<u>Carrying Amount</u>	<u>Market Value</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
Cash:					
Checking A/C's	\$ 99,427	\$	\$	\$ 99,427	\$ 99,427
Savings Account	79,228			79,228	79,228
Petty Cash	100			100	100
Total Cash	<u>\$ 178,755</u>	<u>\$</u>	<u>\$</u>	<u>\$ 178,755</u>	<u>\$ 178,755</u>

In addition to the above analysis, the Commission has adopted an investment policy as required by P.A. 196 of 1997; Michigan Compiled Law 129.95.

Note 3: Fixed Asset Analysis.

The following represents the changes in fixed assets for the year:

	<u>Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>End of Year</u>
Land	\$ 21,676	\$	\$	\$ 21,676
Buildings	1,565,413			1,565,413
Furniture & Equipment-Dwellings	31,814	4,562		36,376
Furniture & Equipment-Admin	33,245	21,689		54,934
Leasehold Improvements	<u>308,337</u>	<u>31,654</u>		<u>339,991</u>
	\$ 1,960,485	\$ 57,905	\$	\$ 2,018,390
Less Accumulated Depreciation	<u>1,593,333</u>	<u>64,669</u>		<u>1,658,002</u>
	<u>\$ 367,152</u>	<u>\$ (6,764)</u>	<u>\$ 0</u>	<u>\$ 360,388</u>

Note 4: Risk Management

The Commission is exposed to various risks of loss related to property loss, torts, error and omissions and employee injuries. The Commission purchases commercial insurance to cover the risks of these losses. The Commission had the following insurance in effect during the year:

<u>Types of Policies</u>	<u>Coverage's</u>
Property	\$ 3,040,676
General Liability	1,000,000
Automobile Liability	300,000
Dishonesty Bond	1,000,000
Worker's Compensation and other riders: Coverage's required by the State of Michigan	

Notes to the Financial Statements- continued

Note 5: Reclassifications.

Certain prior years' balances have been reclassified to conform to the current year's presentation.

Covert Housing Commission

30-Jun-06

MI-189

	Account Description	Low Rent 14.850	Capital Projects Funds 14.872	TOTAL
Line Item #				
	ASSETS:			
	CURRENT ASSETS:			
	Cash:			
111	Cash - unrestricted	178,755		178,755
112	Cash - restricted - modernization and developmen		-	-
113	Cash - other restrictec			-
114	Cash - tenant security deposit	-	-	-
100	Total cash	178,755	-	178,755
	Accounts and notes receivables			
121	Accounts receivable - PHA project			-
122	Accounts receivable - HUD other project		9,996	9,996
124	Accounts receivable - other governmer			-
125	Accounts receivable - miscellaneou	-	-	-
126	Accounts receivable- tenants - dwelling reni	5,364		5,364
126.1	Allowance for doubtful accounts - dwelling reni	(3,767)		(3,767)
126.2	Allowance for doubtful accounts - othe	-		-
127	Notes and mortgages receivable- curren			-
128	Fraud recovery			-
128.1	Allowance for doubtful accounts - fraud			-
129	Accrued interest receivabl			-
120	Total receivables, net of allowances for doubtful account	1,597	9,996	11,593
	Current investments:			-
131	Investments - unrestrictec	-		-
132	Investments - restrictec			-
142	Prepaid expenses and other asset	10,418	-	10,418
143	Inventories	-	-	-
143.1	Allowance for obsolete inventorie	-	-	-
144	Interprogram - due from	9,996	-	9,996
146	Amounts to be providec			-
150	TOTAL CURRENT ASSETS	200,766	9,996	210,762
	NONCURRENT ASSETS:			
	Fixed assets:			
161	Land	21,676	-	21,676
162	Buildings	1,565,413	-	1,565,413
163	Furniture, equipment & machinery - dwelling	34,716	1,660	36,376
164	Furniture, equipment & macinery - admininstratio	34,293	20,641	54,934
165	Leasehold improvement:	292,184	47,807	339,991
166	Accumulated depreciator	(1,651,876)	(6,126)	(1,658,002)
160	Total fixed assets, net of accumulated depreciatio	296,406	63,982	360,388
171	Notes and mortgages receivable - non-curren			-
172	Notes and mortgages receivable-non-current-past du			-
174	Other assets			-
175	Undistributed debit:			-
176	Investment in joint venture:			-
180	TOTAL NONCURRENT ASSETS	296,406	63,982	360,388
190	TOTAL ASSETS	497,172	73,978	571,150

	LIABILITIES AND EQUITY:			
	LIABILITIES:			
	CURRENT LIABILITIES			
311	Bank overdraft			-
312	Accounts payable ≤ 90 days	6,845	-	6,845
313	Accounts payable > 90 days past due		-	-
321	Accrued wage/payroll taxes payable	2,160	-	2,160
322	Accrued compensated absence	861	-	861
324	Accrued contingency liability			-
325	Accrued interest payable			-
331	Accounts payable - HUD PHA program			-
332	Accounts Payable - PHA Project			
333	Accounts payable - other government	5,480	-	5,480
341	Tenant security deposits	7,647	-	7,647
342	Deferred revenues	669	-	669
343	Current portion of Long-Term debt - capital project		-	-
344	Current portion of Long-Term debt - operating borrowing			-
345	Other current liabilities	-		-
346	Accrued liabilities - other	-		-
347	Inter-program - due to	-	9,996	9,996
310	TOTAL CURRENT LIABILITIES	23,662	9,996	33,658
	NONCURRENT LIABILITIES:			
351	Long-term debt, net of current- capital project			-
352	Long-term debt, net of current- operating borrowing			-
353	Noncurrent liabilities- other	-		-
354	Accrued Compensated Absences- Non Current	767		767
350	TOTAL NONCURRENT LIABILITIES	767	-	767
300	TOTAL LIABILITIES	24,429	9,996	34,425
	EQUITY:			
501	Investment in general fixed asset			-
	Contributed Capital:			
502	Project notes (HUD)			-
503	Long-term debt - HUD guarantees	-	-	-
504	Net HUD PHA contributions	-		-
505	Other HUD contributions			-
507	Other contributions	-		-
508	Total contributed capital	-	-	-
508.1	Invested in Capital Assets, Net of Related Debt	296,406	63,982	360,388
	Reserved fund balance			-
509	Reserved for operating activities			-
510	Reserved for capital activities	-		-
511	Total reserved fund balance	-	-	-
512	Undesignated fund balance/retained earnings	-	-	-
512.1	Unrestricted Net Asset	176,337		176,337
513	TOTAL EQUITY	472,743	63,982	536,725
600	TOTAL LIABILITIES AND EQUITY	497,172	73,978	571,150

- - -

Covert Housing Commission

30-Jun-06

MI-189

Combining Income Statement		Low Rent 14.850	Capital Projects Funds 14.872	TOTAL
Line Item #				
	REVENUE:			
703	Net tenant rental revenue	90,112		90,112
704	Tenant revenue - other	767	-	767
705	Total tenant revenue	90,879	-	90,879
706	HUD PHA grants	66,619	65,841	132,460
708	Other government grants			-
711	Investment income - unrestricted	2,471	-	2,471
712	Mortgage interest income	-		-
714	Fraud recovery			-
715	Other revenue	35,089		35,089
716	Gain or loss on the sale of fixed asset			-
720	Investment income - restricted			-
700	TOTAL REVENUE	195,058	65,841	260,899
	EXPENSES:			
	Administrative			
911	Administrative Salaries	23,653	-	23,653
912	Auditing Fees	2,300		2,300
913	Outside management fee:			-
914	Compensated absence:	(78)		(78)
915	Employee benefit contributions-administrativ	8,010	-	8,010
916	Other operating administrative	12,455	7,225	19,680
	Tenant services			
921	Tenant services - salaries	-	-	-
922	Relocation costs		-	-
923	Employee benefit contributions- tenant service	-	-	-
924	Tenant services - other	2,219	-	2,219
	Utilities			
931	Water	13,908	-	13,908
932	Electricity	7,007	-	7,007
933	Gas	12,328	-	12,328
934	Fuel			-
935	Labor			-
937	Employee benefit contributions- utilitie			-
938	Other utilities expense	-		-
	Ordinary maintenance & operation			
941	Ordinary maintenance and operations - labo	15,351	-	15,351
942	Ordinary maintenance and operations - materials & othe	9,910	-	9,910
943	Ordinary maintenance and operations - contract cost	16,062	6,635	22,697
945	Employee benefit contributions- ordinary maintenanc	1,243	-	1,243
	Protective services:			
951	Protective services - labo			-

952	Protective services- other contract cost	-		-
953	Protective services - other			-
955	Employee benefit contributions- protective services			-
	General expenses			
961	Insurance premiums	11,632	-	11,632
962	Other General Expenses		-	-
963	Payments in lieu of taxes	5,480		5,480
964	Bad debt - tenant rents	3,543	-	3,543
965	Bad debt- mortgages			-
966	Bad debt - other			-
967	Interest expense		-	-
968	Severance expense	-		-
969	TOTAL OPERATING EXPENSES	145,023	13,860	158,883
970	EXCESS OPERATING REVENUE OVER OPERATING EXPENSES	50,035	51,981	102,016
971	Extraordinary maintenance	3,920		3,920
972	Casualty losses - non-capitalized	34,089		34,089
973	Housing assistance payments			-
974	Depreciation expense	58,543	6,126	64,669
975	Fraud losses			-
976	Capital outlays- governmental fund	-		-
977	Debt principal payment- governmental fund			-
978	Dwelling units rent expense			-
900	TOTAL EXPENSES	241,575	19,986	261,561
	OTHER FINANCING SOURCES (USES)			
1001	Operating transfers in (out)	3,950	(3,950)	-
1002	Operating transfers out			
1003	Operating transfers from/to primary government			
1004	Operating transfers from/to component unit			
1005	Proceeds from notes, loans and bonds			
1006	Proceeds from property sales			
1010	TOTAL OTHER FINANCING SOURCES (USES)	3,950	(3,950)	-
1000	EXCESS (DEFICIENCY) OF TOTAL REVENUE OVER (UNDER) TOTAL EXPENSES	(42,567)	41,905	(662)
		-	-	-
		-	-	-
		-		-
				-
				-
				-
		-		-
			-	
			-	
		-	-	-
		-	-	-

COVERT HOUSING COMMISSION
Status of Prior Audit Findings
June 30, 2006

The prior audit of the Covert Housing Commission for the period ended June 30, 2005, did not contain any audit findings

COVERT HOUSING COMMISSION
Report on Compliance and on Internal Control over
Financial Reporting Based on an Audit of Financial
Statements Performed in Accordance with
Government Auditing Standards
June 30, 2006

I have audited the financial statements of Covert Housing Commission as of and for the year ended June 30, 2006, and have issued my report dated February 28, 2007. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As a part of obtaining reasonable assurance about whether Covert Housing Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs: 06-1, 6-2, and 6-3.

Internal Control over Financial Reporting

In planning and performing my audit, I considered Covert Housing Commission's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. I did not note any matters relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect Covert Housing Commission's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe no reportable conditions or material weaknesses exist.

This report is intended solely for the information and use of management and the U. S. Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than these specified parties.

Certified Public Accountant

February 28, 2007

COVERT HOUSING COMMISSION
Schedule of Findings and Questioned Cost
June 30, 2006

1) Summary of Auditor's Results:

Programs:

	<u>Major Program</u>	<u>Non Major Program</u>
Low income Public Housing		X
Capital Projects Funds		X

Opinions:

General Purpose Financial Statements-

Unqualified

Material weakness(es) noted Yes X No

Reportable condition(s) noted Yes X No

Non Compliance material to financial statements noted Yes X No

Report on compliance for Federal programs-

Qualified

Material weakness(es) noted Yes X No

Reportable condition(s) noted X Yes No

Non Compliance material to financial statements noted Yes X No

Thresholds

Dollar limit used to determine type A & B programs- \$ 300,000

<u>Name of Federal Program</u>	<u>Major Program</u>	<u>Questioned Costs</u>	<u>Audit Finding Number</u>
Low Rent Program	No	None	06-1, 06-2, 6-3
Capital Fund Project	No	None	None

COVERT HOUSING COMMISSION
Schedule of Findings
June 30, 2006

The following finding of the Covert Housing Commission, for the year ended June 30, 2006, were discussed with the Executive Director, Ms. Ramona Tugan, in an exit interview conducted February 22, 2007.

Finding 1: Investment Policy Acknowledgement

The State of Michigan, Public Act 196, of 1997, requires all municipalities to have their investment policies submitted to their lending institutions for acceptance and approval; the Commission has not submitted the investment policy to the banks.

Recommendation

I recommend the Commission submit its investment policy to all lending institutions for acceptance and approval; written receipt from the banks will meet with the requirements of the State's Public Acts as amended concerning their investment policy.

Reply

While the financial institutions have been supplied policies and Commission Board Minutes to support actions made with them, the Commission, on March 9, 2007 mailed copies of the Investment Policy along with a cover letter, to each bank we do business with. The Policy includes the acknowledgement of receipt necessary for the Commission file.

Finding 2: Excess Tenants Accounts Receivable

The Commission's average outstanding tenant accounts receivable is \$ 134 per unit; the prior year average was \$ 57 per unit. HUD prescribes an average of \$ 15 per unit to be reasonable.

Recommendation

The Commission's tenants accounts receivable balance has more than doubled in the past year; bad debts have not been written off in a timely manner, and uncollectible accounts have not been pursued through a collection agency or by any court activity.

I recommend the Commission implement it's collection policy, and adopt a policy for follow-up on uncollectable accounts. Once a tenant has been evicted or moves out, efforts should be made to collect the past due balance; use of a collection agency may result in some repayment.

The current level of tenant accounts receivable is unacceptable; the Commission needs to review its collection policy and enforce it- efforts to collect past due balances after eviction should also be pursued.

Reply

The Commission has every intention of taking steps to remedy the past due accounts. The Executive Director works only works 25 hours per week. During the everyday operations of housing business I have not found the time to review all of the information I have gathered in regards to going to small claims court. However it is true that we have not gone to a collection agency, nor have we taken former tenants to small claims court as yet.

The auditor did not request the files of tenants who have moved out with a balance to investigate whether we had made attempts to collect. Nor did he investigate the circumstances of why the individual accounts were so high.

The Executive Director is in the process of upgrading all of the housing commission policies for approval by the Board of Commissioners. At this time we do not have a "Collection Policy" for past due accounts. The "Rent Collection Policy" only makes reference to going to court for eviction. It does not address tenants who "move out" leaving a balance.

As an Executive Director with no previous experience in Public Housing I have learned a great deal "by the seat of my pants". This learning comes from attending conferences as often as possible. It also comes from conferring with others persons with housing experience. The hiring of Housing Authority Accounting Specialists has been very beneficial to us. The accountant has made many recommendations to us in regards to our accounts. IN fact I have spoken with our fee accountant Darrin Vieth and he has assured me that in future he will make me aware of accounts which need to be written off prior to the year end.

As the Executive Director I will make an effort to take former tenants to small claims court or to turn them over to a collection agency.

I will also work with the fee accountant to be sure accounts are written off in a timely manner.

Finding 3: Tenant Accounting Discrepancies

The following discrepancies were noted during the review of files:

Five files were tested, none of the files contained a form 214- citizenship verification; none contained a rent choice form; and 4 of the 5 lacked proper income verification.

Recommendation

The Commission consist of 40 units, and although the sample was small, it represented 12 % of all files. The above missing forms are required by HUD, and income verification is a basic requirement to accurately calculate tenant rents.

I recommend the Commission obtain proper training for the staff and implement procedures to insure compliance with HUD requirements concerning tenant accounting.

Reply

I was surprised to find that we did not have HUD Form 214 in many of our files. In early 2004 I began using our current application for housing which does include the form. In the random selection of tenant files it just so happened that all were prior to the new application. I did not realize that the "old" applications did not contain it. I was especially caught off guard with this finding due to the fact that I actually supplied the form to other housing directors. I understand that it is a required form. We are already making strides in having tenants sign the required form 214, and have at this time 23 of the 40 units in compliance.

The auditor makes no mention of the fact that the missing documents had no bearing on the final rent figure. Food assistance is excluded from income and would have been a figure inserted and then excluded. The amount of money received for Medicaid Reimbursement was all counted in the calculation. We have already sent for verification from the Family Independence Agency for proof of the food assistance and Medicaid reimbursement/State SSI amounts for all of our tenants.

We have already been in contact with our PHRS Angela Lett-Foster and have requested help in acquiring a "check list" of items necessary for leasing and re-certification of the lease.

In the future I will make efforts to document with third party verification all income received by tenants.

As per the recommendation that staff attend training, I do attend all of the MHDA conferences held in Michigan as well as many of the MI NAHRO conferences. I have attended a PH Eligibility, Income & Rent Calculations seminar by NAHRO, I also have my PHM. I have learned many things at these conferences. I try to take special notice of anything that is required and make changes in my office. Attending conferences is no guarantee that every HUD regulation will be discussed. I feel that I have been doing the best I can, given the time limits to my job and the huge number of regulations that exist in the housing industry. I will however make more of an effort to include all of the required documentation in tenant files.